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TO ALL OECD CAPITALS

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FOLLOWING TELEGRAM FROM OECD PARIS DATED FEBRUARY 19, 1974
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TAGS: EFIN, OECD

SUBJECT: MEETING OF WP3, FEBRUARY 14-15

1. SUMMARY: SESSION DEVOTED TO IMPACT OF OIL SITUATION
ON WORLD PAYMENTS PROSPECTS, COUNTRIES' PAYMENTS AIMS,
AND TECHNIQUES FOR FINANCING CURRENT ACCOUNT DEFICITS.
WP CONCLUDED THAT IN ADDITION TO PROBABILITY THAT MANY
LDC'S WILL FIND SITUATION UNMANAGEABLE, ITALY AND U.K.,
AND PERHAPS DENMARK, LIKELY TO FACE SERIOUS FINANCING
PROBLEMS BEFORE END 1974. ALTHOUGH MOST WP3 COUNTRIES
APPEARED TO HAVE MODIFIED THEIR MEDIUM-TERM PAYMENTS
AIMS TO SOME EXTENT IN LIGHT OF PROSPECTIVE LARGE
CURRENT ACCOUNT DEFICIT FOR OECD COUNTRIES AS A GROUP,
A BASIC INCOMPATIBILITY REMAINS. WHILE MANY MEMBERS
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EXPRESSED WORRY THAT DISTRIBUTION MF COLLECTIVE OECD

CURRENT ACCOUNT DEFICIT AMONG MEMBER COUNTRIES WAS
 LIKELY TO PRESENT PROBLEM, WITH INHERENT DANGER OF
 RESTRICTIONS AND COMPETITIVE DEPRECIATION, WP DID NOT
 ATTEMPT TO REACH AGREEMENT ON PRINCIPLES FOR DISTRIBUTION OR ON SPECIFIC GOALS FOR INDIVIDUAL COUNTRIES.
 WITH RESPECT TO FINANCING PROBLEMS, WP AGREED TO WATCH
 SITUATION CLOSELY BUT WAIT TO SEE WHETHER PRIVATE
 MARKETS PROVE ADEQUATE TO TASK. END SUMMARY.

2. IN TOUR D'TABLE SEVERAL NATIONAL DELEGATIONS
 PRESENTED APPRAISALS OF 1974 CURRENT ACCOUNT PROSPECTS
 WHICH DIFFERED SIGNIFICANTLY FROM THOSE OFFERED BY
 SECRETARIAT. ITALY EXPECTED A SIGNIFICANTLY LARGER,
 AND FRANCE A MARGINALLY LARGER, DEFICIT THAN FORECAST BY
 SECRETARIAT. JAPAN, ON OTHER HAND, REPORTED OFFICIAL
 FORECAST OF VIRTUAL BALANCE IN FY74 (BEGINNING APRIL 1),
 IN SHARP CONTRAST WITH SECRETARIAT ESTIMATE OF TLS 7
 BILLION DEFICIT IN CY74 AND IMF ESTIMATE OF EVEN LARGER
 DEFICIT. SMALL COUNTRIES ALSO MORE OPTIMISTIC, AS
 GROUP WP3 MEMBERS PROJECTED SUBSTANTIALLY SMALLER OECD
 DEFICIT THAN FORECAST BY SECRETARIAT DESPITE APPARENT
 GENERAL AGREEMENT ON PROBABLE SIZE OF OPEC SURPLUSES
 AND BELIEF THAT LDC'S MIGHT NOT EVEN BE ABLE TO MANAGE
 THE DEFICIT OF DOLS 15 BILLION PROJECTED BY SECRETARIAT.
 MEMBERS' FORECASTS CARRY IMPLICATION OF DEFICIT FOR
 LDC'S OF DOLS 22.5 TO 25 BILLION. SCHWARTZ (IMF) REPORTED
 THAT FORTHCOMING STUDY BY IMF WOULD PROJECT OPEC SURPLUS
 OF DOLS 65 TO DOLS 70 IN 1974. LDC DEFICIT OF DOLS 23 BILLION AND
 OECD DEFICIT OF DOLS 42 TO DOLS 47 BILLION--WELL ABOVE BOTH WP
 AND OECD SECRETARIAT PROJECTIONS.

3. FOLLOWING TABLE REFLECTS COUNTRY VIEWS (AS INTER-
 PRETED BY SECRETARIAT WHERE NATIONAL DELEGATIONS DID
 NOT GIVE SPECIFIC FIGURE.)

CURRENT ACCOUNT BALANCES IN 1974
 (INCLUDING OFFICIAL TRANSFERS)
 (BILLIONS OF DOLLARS)
 COUNTRY SECRETARIAT COUNTRY DIFFERENCE FINANCING
 EST EST PROBLEM
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U.S.	-4	-20 TO	0 TO 2	NO
	-4			
CANADA	0	NONE		NO
JAPAN	-7.5	-0.5	7	NO
GERMANY	-1	-1	0	NO
FRANCE	-3.5	-5 TO	-1.5 TO	NO
	-5.5	-2.9		
U.K.	-8	-8	0	YES

ITALY	-5.5	-7.5	TT	-2	TO YES
	-8	-2.5			
BIG SEVEN	-29.5	-24	TO	2.5	TO
	-27	5.5			
NETHERLANDS	.3			NT	
BELGIUM	0			NO	
SWITZERLAND		-1	TO		NO
	-1.4				
SWEDEN	-2			NO	
DENMARK	-9			YES	
NORWAY	-1.4			NO	
SUB TOTAL	-3.2	TO			
	-3.5				
OTHER OECD					
TOTAL SMALL OECD					
	-10.5	-6		4.5	
TOTAL OECD	-40	-30	TO	7.5	TO
	-32.5	10			
OPEC	55	55			
LDC'S	-15	-22.5	TO	-7.5	TO
	-25	-10			

4. U.S. (BENNETT) DISTRIBUTED COPIES OF ANALYSIS OF SITUATION PRESENTED BY USG AT WASHINGTON ENERGY CONFERENCE ALONG WITH COMMUNIQUE AND TEXT OF STATEMENT BY SECRETARY SHULTZ ON NEED FOR CLOSER INTERNATIONAL FINANCIAL COOPERATION. EMPHASIZED NEED FOR ACTION TO REDUCE IMPORTS OF OIL THROUGH COOPERATIVE EFFORTS TO RESTRAIN CONSUMPTION AND DEVELOP ALTERNATE SOURCES OF SUPPLY. NOTED EXPECTATIONS THAT BOTH PRODUCING AND REFINING CAPACITIES WOULD PROVE TO BE IN EXCESS OF DEMAND IN 1974 EVEN AT SUBSTANTIALLY LOWER PRICES THAN THOSE NOW PREVAILING. FELT BASIC LIMITED OFFICIAL USE

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ISSUE WAS WHETHER PERSIAN GULF PRODUCERS WOULD BE RESPONSIBLE SUPPLIERS.

5. IN COMMENTING ON ESTIMATES OF U.S. BALANCE OF PAYMENTS OF CURRENT ACCOUNT, BENNET SAID THAT SECRETARIAT ESTIMATE (\$-4 BILLION) FOR 1974 WAS TOWARD THE ADVERSE END OF THE RANGE OF USG ESTIMATES WITH POTENTIAL VARIATION UNUSUALLY LARGE. NOTED PARTICULARLY EFFECTS OF SLIGHT CHANGES IN PRICES OF OIL AND AGRICULTURAL PRODUCTS AND UNCERTAINTY OVER DEGREE TO WHICH DIVIDEND INCOME OF MAJOR OIL-PRODUCING COMPANIES WOULD BE SQUEEZED. OIL DEVELOPMENTS WOULD HAVE LARGER PERCENTAGE IMPACT ON PAYMENTS POSITION OF U.S. THAN ON ANY OTHER WP COUNTRY EXCEPT JAPAN (ABOUT

SAME AS ON ITALY). SAID U.S. MEDIUM-TERM AIMS WERE QUALITATIVE, NOT QUANTITATIVE, WITH DESIRE TO MINIMIZE RESTRICTIONS AND AVOID DISTORTION OF RESOURCE ALLOCATION.

6. JAPAN (INAMURA) PRESENTED OFFICIAL FY FORECAST (BILLIONS OF DOLLARS)

CURRENT ACCOUNT -0.5

LONG TERM CAPITAL -4.5

EMPHASIZED THAT FORECAST REFLECTED POLICY AIMS. AUTHORITIES WOULD STOP ENCOURAGING CAPITAL OUTFLOWS BUT WOULD NOT IMPOSE RESTRICTIONS ON THEM. ATTRIBUTED DIFFERENCE BETWEEN JAPANESE AND SECRETARIAT FORECASTS TO NON-OIL ELEMENTS, PARTILY VOLUME OF IMPORTS AND ESPECIALLY ON PRICES AND VOLUME OF EXPORTS. INAMURA COUTIONED WP THAT JAPANESE GOVERNMENT COULD BE SERIOUSLY EMBARRASSED BY ANY PRESS REPORT IMPLYING LACK OF CONFIDENCE ON H
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